AUDITOR - GENERAL
SOUTH AFRICA
21 JAN 2015

UMZIMVUBU
LOCAL MUNICIPALITY

FINANCIAL STATEMENTS

30 JUNE 2014

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MEMBERS OF THE UMZIMVUBU LOCAL MUNICIPALITY

COUNCILLORS

WARD	
1	FJ Hem
2	AL Mwezula
3	MV Nkqayi
4	MM Mpepanduku
5	M Mpakumpaku
6	X Jona
7	NM Mlenzana
8	M Jojo
9	ZJ Mendu
10	V Nyangane
11	N Gogela
12	ZB Mtebele
13	CT Ndawo
14	BMA Zililo
15	N Sonyabashi
16	SAN Cekeshe
17	S Mankanku
18	NT Xezu
19	N Jijana
20	V Ngabaza
21	FN Ngonyolo
22	CM Ngalonkulu
23	BT Ngqasa
24	MH Kwekwile
25	NA Sobahle
26	NP Ndabeni
27	S Nogcantsi

PROPORTIONAL
N Nkula
SP Myingwa
EN Ngalonkulu-Lebelo
N Mpumlwana
NE Pakkies
T Mabindisa
MM Gwanya
AZ Gwebani
N Boyce
NO Godlo
LT Qasha
B Mngweba
NP Mlandu
UN Makanda
PK Thingathinga
TA Mambi
F Ntwakumba
ZO Sisilana
N Mbele
KS Phangwa
NN Geadinja
VA Bulana
N Mpanda
SK Mnukwa
Z Ndevu
B Ripa
NA Matshongo

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APPROVAL OF FINANCIAL STATEMENTS

I am responsible for the preparation of these annual financial statements, which are set out on pages 1 to 83-86 in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Mr. G.P.T. Nota
Municipal Manager

Date

These Financial Statements have not been audited

LEGAL FORM

Category B Municipality which operates in accordance with Chapter 7 of the Constitution of South Africa.

OBJECTIVES

The municipality strives, within its financial and administrative capacity, to achieve the following objects:

to provide democratic and accountable government for local communities
to ensure the provision of services to communities in a sustainable manner
to promote social and economic development
to promote a safe and healthy environment
to encourage the involvement of communities and community organisations in the matters of local government

GRADING

Grade 3

DEMARCATION CODE

EC 442

JURISDICTION

Greater Umzimvubu area which includes:
Mount Frere, Mount Ayliff
and
various rural areas

GENERAL INFORMATION

MEMBERS OF THE EXECUTIVE MAYORAL COMMITTEE AS AT 30 JUNE 2014

Mayor	Speaker	Chief Whip
KS Pangwa	ZO Sisilana	N Mbele
Members		**Portfolio**
MV Nkqayi		Infrastructure and Planning
VA Bulana		Community Services
LT Qasha		Corporate Services
Z Ndevu		Budget and Treasury
EN Ngalonkulu - Lebelo		Communications and SPU
N Mpumlwana		Local Economic Development
N Nkula		Exco Member
PK Thingathinga		Exco Member

AUDITORS

Auditor-General
East London
Eastern Cape

BANKERS

First National Bank
Mount Frere

ATTORNEYS

REGISTERED OFFICE

Erf 813 Main Street
Mount Frere

Private Bag X9020
Mount Frere
5090

Tel: (039) 255 0166
Fax: (039) 255 0167

Webpage: www.umzimvubu.gov.za

MUNICIPAL MANAGER

Mr. G.P.T. Nota

CHIEF FINANCIAL OFFICER

Mrs X. Venn

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REPORT OF THE CHIEF FINANCIAL OFFICER

1. INTRODUCTION

It gives me great pleasure to present the Annual Financial Statements of Umzimvubu Local Municipality at 30 June 2014.

These Annual Financial Statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003). The standards and pronouncements that form the GRAP Reporting Framework for the 2013/14 financial period is set out in Directive 5 issued by the ASB on 11 March 2009.

2. KEY FINANCIAL INDICATORS

The following indicators are self-explanatory. The percentages of expenditure categories are well within acceptable norms and indicate good governance of the funds of the municipality.

2.1 Financial Statement Ratios:

INDICATOR	2014	2013
Surplus / (Deficit) for the year ended	79 704 465	14 391 226
Surplus / (Deficit) Accumulated as at	400 089 598	320 385 133
Expenditure Categories as a percentage of Total Expenses:		
Employee Related Costs	27.34%	22.80%
Remuneration of Councillors	8.30%	7.64%
Depreciation and Amortisation	18.11%	15.36%
Impairment Losses	1.35%	3.74%
Repairs and Maintenance	1.40%	1.34%
Interest Paid	1.15%	0.15%
Contracted Services	3.39%	3.23%
Grants and Subsidies Paid	2.02%	17.97%
General Expenses	28.37%	23.09%
Government Grants (Conditional)	8.38%	4.66%
Loss on Disposal of Property, Plant and Equipment	0.19%	0.02%
Current Ratio:		
Trade Creditors Days	35	38
Debtors	262	17

2.2 Performance Indicators:

INDICATOR	2014	2013
Financial Position		
Debtors Management:		
Outstanding Debtors to Revenue	9.63%	1.30%
Liquidity Management:		
Liquidity Ratio	1.22	1.33
Liability Management:		
Capital Cost as percentage of Own Revenue	7.72%	2.45%
Financial Viability:		

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Debt Coverage	6.94	8.73
Cost Coverage	0.31	0.34
Financial Performance		
Expenditure Management:		
Creditors to Cash and Investments	28.33%	25.07%

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A detailed ratio analysis, together with explanations, is included in Appendix "H".

3. OPERATING RESULTS

Details of the operating results per segmental classification of expenditure are included in Appendix "D", whilst operational results are included in Appendices "E (1), E (2) and E (3)".

The services offered by Umzimvubu Local Municipality can generally be classified as Rates and General and Economic Services and are discussed in more detail below.

The overall operating results for the year ended 30 June 2014 are as follows:

DETAILS	Actual 2013/14 R	Actual 2012/13 R	Percentage Variance %	Budgeted 2013/14 R	Variance actual/ budgeted %
Income:					
Opening surplus / (deficit)	320 385 133	244 952 992	30.79	-	100.00
Operating income for the year	246 488 019	187 327 432	31.58	310 484 585	(20.61)
Appropriations for the year		17 433		-	-
	566 873 151	432 297 857	31.13	310 484 585	82.58
Expenditure:					
Operating expenditure for the year	166 783 553	172 936 206	(3.56)	191 828 355	(13.06)
Appropriations for the year		(61 023 481)		-	-
Closing surplus / (deficit)	400 089 598	320 385 133	24.88	118 656 230	237.18
	566 873 151	*432 297 857*	*31.13*	*310 484 585*	*82.58*
		0			

3.1 Rates and General Services:

Rates and General Services are all types of services rendered by the municipality, excluding those listed below. The main income sources are Assessment Rates and Sundry Fees levied.

DETAILS	*Actual* 2013/14 R	*Actual* 2012/13 R	*Percentage* Variance %	*Budgeted* 2013/14 R	*Variance actual/* budgeted %
Income	237 847 396	184 665 601	28.80	307 840 609	(22.74)
Expenditure	154 604 478	163 556 626	(5.47)	180 927 637	(14.55)
Surplus / (Deficit)	83 242 918	21 108 975	294.35	126 912 972	(34.41)
Surplus / (Deficit) as % of total income	35.00%	11.43%		41.23%	

3.2 Waste Management Services:

Waste Management Services are services rendered by the municipality for the collection, disposal and purifying of waste (refuse and sewerage). Income is mainly generated from the levying of fees and tariffs determined by the council.

DETAILS	Actual 2013/14 R	Actual 2012/13 R	Percentage Variance %	Budgeted 2013/14 R	Variance actual/ budgeted %
Income	8 640 623	2 661 831	224.61	2 643 976	226.80
Expenditure	12 179 075	9 379 580	29.85	10 900 719	11.73
Surplus / (Deficit)	(3 538 452)	(6 717 749)	(47.33)	(8 256 743)	(57.14)
Surplus / (Deficit) as % of total income	(40.95)%	(252.37)%		(312.29)%	

4. FINANCING OF CAPITAL EXPENDITURE

The expenditure on Assets during the year amounted to R134 029 239 (2012/13: R50 211 478). Full details of Assets are disclosed in Notes 9, 10, 11, 12 and Appendices "B, C and E (4)" to the Annual Financial Statements.

Source of funding as a percentage of Total Capital Expenditure:

DETAILS	2014	2013
Grants and Subsidies	90.93%	100.00%

Capital Assets are funded to a great extent from grants and subsidies as the municipality does not have the financial resources to finance infrastructure capital expenditure from its own funds.

5. RECONCILIATION OF BUDGET TO ACTUAL

5.1 Operating Budget:

DETAILS	2014	2013
Variance per Category:		
Budgeted surplus before appropriations	118 656 230	25 461 047
Revenue variances	(63 996 566)	(40 470 767)
Expenditure variances:		
Employee Related Costs	1 657 785	4 019 068
Remuneration of Councillors	6 219	1 102 897
Depreciation and Amortisation	(3 745 173)	5 444 797
Impairment Losses	12 310 229	10 526 555
Repairs and Maintenance	266 556	368 911
Interest Paid	(79 226)	(235 306)
Contracted Services	177 105	647 586
Grants and Subsidies Paid	6 047 633	3 824 579
General Expenses	2 624 684	1 095 887
Government Grants (Conditional)	3 103 962	2 644 938
Loss on disposal of Property, Plant and Equipment	2 675 026	(38 966)
Actual surplus before appropriations	79 704 466	14 391 226

DETAILS	2014	2013
Variance per Service Segment:		
Budgeted surplus before appropriations	118 656 230	25 461 047
Executive and Council	3 108 953	920 859
Finance and Administration	(1 839 741)	1 487 139
Planning and Development	(52 084 800)	(17 162 942)
Community and Social Services	15 619	(1 263 871)
Public Safety	7 129 914	2 405 927
Waste Management	4 718 290	2 543 067
Actual surplus before appropriations	79 704 465	14 391 226

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Details of the operating results per segmental classification of expenditure are included in Appendix "D", whilst operational results are included in Appendices "E (1), E (2) and E (3)".

5.2 Capital Budget:

DETAILS	Actual 2013/14 R	Actual 2012/13 R	Variance actual 2013/14 / 2012/13 R	Budgeted 2013/14 R	Variance actual/ budgeted R
Executive and Council	129 003	910 058	(781 055)	315 000	(185 997)
Budget and Treasury	917 068	788 225	128 843	958 025	(40 957)
Corporate Services	877 622	-	877 622	1 394 420	(516 798)
Local Economic Development	3 941 271	-	3 941 271	5 660 281	(1 719 010)
Infrastructure and Planning	108 872 443	38 546 232	70 326 211	135 611 386	(26 738 943)
Community and Social Services	14 054 779	4 014 470	10 040 310	14 075 000	(20 221)
Waste Management	3 907 790	4 027 946	(120 155)	5 178 589	(1 270 799)
Public Safety	1 329 262	1 924 548	(595 286)	1 800 839	(471 577)
	134 029 239	50 211 478	83 817 760	164 993 540	(30 964 301)

Details of the results per segmental classification of capital expenditure are included in Appendix "C" and in Appendix "E (4)".

6. ACCUMULATED SURPLUS

The balance of the Accumulated Surplus as at 30 June 2014 amounted to R400 089 598 (30 June 2013: R320 385 133) and is made up as follows:

Capital Replacement Reserve	5 014 475
Capital Contributions from Government	364 892 879
Accumulated Surplus	30 182 244
	400 089 598

The Capital Replacement Reserve replaces the previous statutory funds, like the Capital Development Fund, and is a cash-backed reserve established to enable the municipality to finance future capital expenditure. Cash contributions, depending on the availability of cash, is made annually to the reserve.

The Government Contributions are utilised to offset the cost of depreciation of assets funded from Government Grants over the lifespan of such assets. Amounts equal to the cost of assets acquired from Government Grants are transferred to the reserve annually.

The municipality, in conjunction with its own capital requirements and external funds (external loans and grants) is able to finance its annual infrastructure capital programme.

Refer to Note 21 and the Statement of Change in Net Assets for more detail.

7. LONG-TERM LIABILITIES

The outstanding amount of Long-term Liabilities as at 30 June 2014 was R32 995 163 (30 June 2013: R588 079).

Loans to the amount of R50 000 000 (2012/13: R0) was taken up during the financial year to enable the municipality to assist with bridging finance for the electrification of the area.

Refer to Note 18 and Appendix "A" for more detail.

8. EMPLOYEE BENEFIT LIABILITIES

Employee Benefit Liabilities amounted R842 751 as at 30 June 2014 (30 June 2013: R868 290) and is made up as follows:

Long Service Awards Liability	842 751
	842 751

The Long-term Service Liability is an estimate of the long-service based on historical staff turnover. No other long-term service benefits are provided to employees. This liability is unfunded.

Refer to Note 19 for more detail.

9. NON-CURRENT PROVISIONS

Non-current Provisions amounted R6 158 527 as at 30 June 2014 (30 June 2013: R5 621 438) and is made up as follows:

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Provision for Rehabilitation of Land-fill Sites	6 158 527
	6 158 527

These provisions are made in order to enable the municipality to be in a position to fulfil its known legal obligations when they become due and payable.

Refer to Note 20 for more detail.

10. CURRENT LIABILITIES

Current Liabilities amounted R34 742 452 as at 30 June 2014 (30 June 2013: R37 072 945) and is made up as follows:

Provisions	Note 13	134 814
Payables from Exchange Transactions	Note 14	12 034 916
Payables from Non-exchange Transactions	Note 15	2 404 546
Unspent Conditional Grants and Receipts	Note 16	2 575 259
Current Portion of Long-term Liabilities	Note 18	17 592 917
		34 742 452

Current Liabilities are those liabilities of the municipality due and payable in the short-term (less than 12 months). There is no known reason as to why the municipality will not be able to meet its obligations.

Refer to the indicated Notes for more detail.

11. PROPERTY, PLANT AND EQUIPMENT

The net value of Property, Plant and Equipment was R388 551 450 as at 30 June 2014 (30 June 2013: R284 963 933).

Refer to Note 9 and Appendices "B, C and E (4)" for more detail.

12. INTANGIBLE ASSETS

The net value of Intangible Assets were R1 378 537 as at 30 June 2014 (30 June 2013: R1 421 313).

Intangible Assets are assets which cannot physically be identified and verified and are in respect of computer software obtained by the municipality in order to be able to fulfil its duties as far as service delivery is concerned.

Refer to Note 10 and Appendix "B" for more detail.

13. INVESTMENT PROPERTY

The net value of Investment Properties were R20 411 575 as at 30 June 2014 (30 June 2013: R23 679 800).

Investment Property is property held to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes; or sale in the ordinary course of operations.

Refer to Note 11 and Appendix "B" for more detail.

14. HERITAGE ASSETS

The net value of Heritage Assets were R17 719 as at 30 June 2014 (30 June 2013: R17 719).

Heritage Assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Refer to Note 12 and Appendix "B" for more detail.

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15. CURRENT ASSETS

Current Assets amounted R64 469 208 as at 30 June 2014 (30 June 2013: R54 453 119) and is made up as follows:

Inventories	Note 2	378 389
Receivables from Exchange Transactions	Note 4	4 263 219
Receivables from Non-exchange Transactions	Note 5	10 395 098
VAT Receivable	Note 6	6 834 918
Cash and Cash Equivalents	Note 7	42 476 321
Operating Lease Assets	Note 8	121 263
		64 469 208

The increase in the amount for Current Assets is mainly due to the increased amount held in Bank and Cash Equivalents.

Refer to the indicated Notes for more detail.

16. INTER-GOVERNMENTAL GRANTS

The municipality is dependent on financial aid from other government spheres to finance its annual capital programme. Operating grants are utilised to finance indigent assistance and provision of free basic services.

Refer to Notes 16 and 26, and Appendix "F" for more detail.

17. EVENTS AFTER THE REPORTING DATE

Full details of all known events, if any, after the reporting date are disclosed in Note 60.

18. EXPRESSION OF APPRECIATION

We are grateful to the Mayor, members of the Executive Committee, Councillors, the Municipal Manager and Heads of Departments for the support extended during the financial year. A special word of thanks to all staff in the Finance Department, for without their assistance these Annual Financial Statements would not have been possible.

CHIEF FINANCIAL OFFICER

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UMZIMVUBU LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2014

	Note	Actual 2014 R	2013 Restated R
ASSETS			
Current Assets		**64 469 208**	**54 453 119**
Inventories	2	378 389	482 117
Receivables from Exchange Transactions	4	4 263 219	68 287
Receivables from Non-exchange Transactions	5	10 395 098	1 615 831
VAT Receivable	6	6 834 918	2 729 459
Cash and Cash Equivalents	7	42 476 321	49 447 451
Operating Lease Receivables	8	121 263	109 975
Non-Current Assets		**410 359 282**	**310 082 765**
Property, Plant and Equipment	9	388 551 450	284 963 933
Intangible Assets	10	1 378 537	1 421 313
Investment Property	11	20 411 575	23 679 800
Heritage Assets	12	17 719	17 719
Total Assets		**474 828 490**	**364 535 884**
LIABILITIES			
Current Liabilities		**34 742 452**	**37 072 945**
Provisions	13	134 814	72 985
Payables from Exchange Transactions	14	12 034 916	12 396 075
Payables from Non-exchange Transactions	15	2 404 546	688 203
Unspent Conditional Grants and Receipts	16	2 575 259	23 567 031
Current Portion of Long-term Liabilities	18	17 592 917	348 650
Non-Current Liabilities		**39 996 440**	**7 077 807**
Long-term Liabilities	18	32 995 163	588 079
Employee Benefit Liabilities	19	842 751	868 290
Non-current Provisions	20	6 158 527	5 621 438
Total Liabilities		**74 738 892**	**44 150 752**
Total Assets and Liabilities		**400 089 598**	**320 385 133**
NET ASSETS		**400 089 598**	**320 385 133**
Accumulated Surplus / (Deficit)	21	400 089 598	320 385 133
Total Net Assets		**400 089 598**	**320 385 133**

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STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2014

	Note	Actual 2014 R	2013 Restated R
REVENUE			
Revenue from Non-exchange Transactions			
Property Rates	22	8 468 165	10 756 087
Fines	23	7 011 338	438 742
Licences and Permits	24	2 680 885	2 110 477
Income from Agency Services	25	1 392 701	1 295 379
Government Grants and Subsidies Received	26	217 028 021	163 875 404
Public Contributions and Donations	27	120 300	6 000
Revenue from Exchange Transactions			
Service Charges	28	1 325 645	2 116 831
Rental of Facilities and Equipment	29	1 804 263	1 537 225
Interest Earned - External Investments	30	3 173 126	2 250 781
Interest Earned - Outstanding Debtors	30	1 139 373	1 138 910
Other Revenue	31	1 946 952	1 801 598
Gains on Disposal of Property, Plant and Equipment		397 250	-
Total Revenue		**246 488 019**	**187 327 432**
EXPENDITURE			
Employee Related Costs	32	45 599 361	39 434 554
Remuneration of Councillors	33	13 847 864	13 219 975
Depreciation and Amortisation	34	30 206 134	26 555 203
Impairment Losses	35	2 249 770	6 473 445
Repairs and Maintenance	36	2 331 654	2 308 781
Finance Costs	37	1 914 921	255 966
Contracted Services	38	5 646 406	5 593 305
Grants and Subsidies Paid	39	3 371 167	31 075 421
General Expenses	40	47 322 460	39 923 731
Government Grants (Conditional)	41	13 968 844	8 056 859
Loss on Disposal of Property, Plant and Equipment	42	324 974	38 967
Total Expenditure		**166 783 553**	**172 936 206**
SURPLUS / (DEFICIT) FOR THE YEAR		**79 704 465**	**14 391 226**

Refer to Budget Statement for explanation of budget variances

UMZIMVUBU LOCAL MUNICIPALITY
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2014

	Note	Actual 2014 R	2013 Restated R
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Property Rates		5 679 457	6 556 764
Government Grant and Subsidies		196 036 249	185 705 000
Public Contributions and Donations		120 300	6 000
Service Charges		3 119 903	809 636
Interest Received		3 876 225	2 367 222
Other Receipts		3 332 730	4 302 294
Payments			
Employee Related Costs		(45 563 071)	(38 631 188)
Remuneration of Councillors		(13 847 864)	(13 219 975)
Interest Paid		(1 914 921)	(255 966)
Suppliers Paid		(73 261 739)	(54 117 983)
Other Payments		(3 696 141)	(31 075 421)
NET CASH FLOWS FROM OPERATING ACTIVITIES	46	**73 881 130**	**62 446 384**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment		(133 538 709)	(46 819 453)
Purchase of Intangible Assets		(490 530)	(455 863)
Proceeds on Disposal of Property, Plant and Equipment		632 308	36 274
Proceeds on Sale of Land		2 893 322	-
NET CASH FLOWS FROM INVESTING ACTIVITIES		**(130 503 609)**	**(47 239 042)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Borrowings		50 000 000	-
Repayment of Borrowings		(348 650)	(318 749)
NET CASH FLOWS FROM FINANCING ACTIVITIES		**49 651 350**	**(318 749)**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		**(6 971 129)**	**14 888 593**
Cash and Cash Equivalents at Beginning of Period		49 447 451	34 558 858
Cash and Cash Equivalents at End of Period		42 476 321	49 447 451

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STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2014

Description	Total
2013	
Balance at 30 June 2012	244 952 992
Correction of Error (Note 44)	61 040 914
Restated Balance 30 June 2012	**305 993 907**
Surplus / (Deficit) for 2012/13	14 391 226
Balance at 30 June 2013	**320 385 133**
2014	
Surplus / (Deficit) for the year 2013/14	79 704 465
Balance at 30 June 2014	**400 089 598**

Details on the movement of the Funds and Reserves are set out in Note 21.